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SUBJECT: NIGERIA SUFFERING CONTINUED BUDGET SHORTFALLS

CLASSIFIED BY DCM RICK ROBERTS FOR REASONS 1.5 (b) AND (d).

11. (U) Nigeria continues to suffer from budgetary shortfalls to fund current expenditures, severely limiting government operations. According to the Minister of State for Finance, Nenadi Usman, the GON had only Naira 145.9 billion available for its August obligations totaling Naira 183.1 billion. MinState Usman said that the GON again tapped into the Central Bank of Nigeria's (CBN) crude oil reserve account to make up the Naira 37.246 billion shortfall.

12. (C) According to a source at the CBN, the central bank was "out of funds." Source told Poloff that the GON was shopping a Naira 150 billion bond offering to cover current expenditures and expected future shortfalls. (Note: This is the first time in 16 years that the GON has issued long-term bonds to service domestic debt. End Note.) The CBN official claimed that the CBN was under strict orders to limit disbursements, and would only fund the following in priority order based on the availability of funds:

- a. the Presidency,
- b. the All-Africa Games (COJA),
- c. the Commonwealth Head of Government Meeting (CHOGM),
- d. "selected" contractors, and
- e. salaries and operating expenses.

13. (C) A source in the Vice President's office confirmed these priorities to Poloff in a separate meeting. He stated that, inside the Presidential Villa, the only two things currently funded were COJA and CHOGM. "There is nothing more important for Nigeria than a successful COJA," he said. According to this source, funding for COJA was a major deciding factor in the GON's attempt to raise the price for gasoline to Naira 40 per liter in June. The agreement to limit the price hike to Naira 36 per liter, after the strike, has created serious cash flow problems for the GON even while it attempts to support COJA and CHOGM in the same year it has already held presidential, legislative, and gubernatorial elections, a summit, and a deployment to Liberia.

14. (C) COMMENT: We know that the GON is devoting itself to putting on COJA and CHOGM, two high-visibility events that will be attended by heads of state. Businessmen and politicians have been complaining about the continued lack of GON resources for normal government operations since the election campaign season began in October, 2002. There are also various "promises" made in the campaign and in labor negotiations -- most notably the 12.5 percent pay increase for civil servants -- that have yet to be fulfilled. With the overwhelming majority of the budget devoted to paying for the GON's day-to-day operations, continuing revenue shortfalls will hamper any efforts by the GON to overcome Nigerian criticisms of non-performance and insensitivity. The long-term bonds will help, as well as deepen the capital market, and are less likely to provoke inflation than the alternative of CBN sterilizing more of Nigeria's forex inflows.

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